

**KALKASKA COUNTY ROAD COMMISSION
FINANCIAL REPORT
DECEMBER 31, 2003**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Kalkaska County Road Commission	County Kalkaska
Audit Date 12/31/03	Opinion Date 8/11/04	Date Accountant Report Submitted to State: 8/31/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

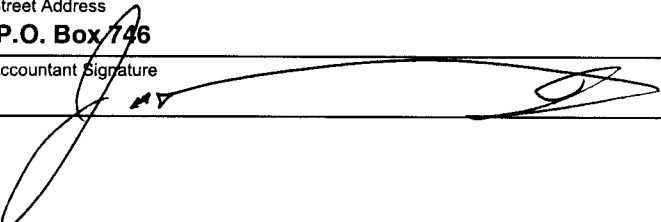
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson & Decker, P.C.			
Street Address P.O. Box 746	City Roscommon	State MI	ZIP 48653
Accountant Signature 		Date	

KALKASKA COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

Bernard D. Wells
Chairman

Donald Vyverberg
Vice Chairman

Charles Erickson
Member

Michael Slater
Engineer-Manager

Lori A. Harbour
Office Manager/Clerk

Brenda G. Smith
Payroll Clerk/Secretary

KALKASKA COUNTY ROAD COMMISSION

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Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

August 11, 2004

Board of County Road Commissioners
Kalkaska County Road Commission
Kalkaska, MI 49649

We have audited the accompanying basic financial statements of the Kalkaska County Road Commission of the County of Kalkaska, Michigan as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Kalkaska County Road Commission as of December 31, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also a report dated August 11, 2004, on our consideration of the Kalkaska County Road Commission's internal control structure and a report dated August 11, 2004, on its compliance with laws and regulations.

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Board of County Road Commissioners
Kalkaska County Road Commission
August 11, 2004

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Kalkaska County Road Commission. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.



ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31, 2003

INTRODUCTION

The Kalkaska County Road Commission (KCRC) is a special purpose government engaged in a single government program of road maintenance and construction in the County of Kalkaska, Michigan. The adoption of Governmental Accounting Standards Board Statement Number 34 (GASB-34) has changed the KCRC financial statement presentation. In the past, governmental entities were required to report financial information only on the modified accrual accounting method. The modified accrual method of accounting focuses on current available resources and is referred to as governmental fund level accounting. Now, in addition to the governmental fund level information, governmental entities are also required to report financial information on the full accrual method of accounting. The full accrual method of accounting focuses on the entity as a whole and is referred to as government-wide level accounting. For KCRC, the most significant differences between the governmental fund statements and the government-wide statements relate to capital assets (buildings and equipment) and infrastructure (roads and bridges). Capital assets and infrastructure are not recognized as assets and capitalized at the governmental fund level.

With respect to the Statements of Net Assets and Activities, the fund level financial statements and the government-wide financial statements have been combined and are presented on the same page.

The audited financial activities of KCRC are presented herein. These statements include the following:

Statement of Net Assets and Governmental Fund Balance Sheet,

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets,

Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, and

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities for the Year Ended December 31, 2003.

CONDENSED FINANCIAL STATEMENTS

The following are condensed government-wide financial statements for KCRC. The reports do not have prior year comparisons because this is the first year full accrual has been required. In the future, the prior year balances and current balances will be listed. An Analysis of net assets and changes in net assets will also be included in future years as the history becomes available for comparison.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31, 2003
(CONTINUED)

ADDITIONAL COMMENTS

The Total Net Assets for the Government-Wide Financial Statements increased by \$778,965 during 2003. The majority of the increase reflects a greater investment in new capital assets, i.e., road improvements and equipment purchases, than the expenses associated with capital assets, such as depreciation and maintenance for the year.

During 2003, the Total Fund Balance for the Fund Financial Statements increased by \$141,185.

Management believes that the Net Assets balance provides sufficient working capital to support future operations of KCRC.

BUDGET

The KCRC budget is prepared in accordance with state law using the modified accrual accounting basis. This is the same accounting basis used for the governmental fund.

ORIGINAL BUDGET VERSUS AMENDED BUDGET

The 2003 budget was adopted on December 31, 2002. The budget is reviewed periodically and amended as information becomes available or management's plans change. The amended budgeted revenue was increased by approximately \$339,200. This increase is due to the following:

The Additional Category-D funds received on road projects and Other Revenue for gains on sale of equipment.

The balance of the increase was from adjustments made to several individual revenue items, none of which management considers significant.

Total budgeted expenditures increased from the original budget to the amended budget by approximately \$449,200. The majority of this increase is also due to the increase in road projects. The balance of the increase was from adjustments made to several individual expenditure items, none of which management considers significant.

AMENDED BUDGET VERSUS ACTUAL

In accordance with the Budget Resolution adopted by the KCRC on December 31, 2002, the Finance Director has modified the budget to various revenue and expenditure accounts which cannot be accurately projected prior to year end. As a result, the Final Adopted Budget of the KCRC has various differences with the actual revenue, expenditures, and Fund Balance for the year ended December 31, 2003.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31, 2003
(CONTINUED)

CAPITAL ASSETS AND LONG TERM DEBT

KCRC has capital assets for full accrual accounting purposes, net of accumulated depreciation, of \$12,717,246. This information, which includes infrastructure, is summarized below.

Land	\$ 95,964
Buildings and improvements	\$ 551,102
Road equipment	\$ 3,138,345
Other equipment	\$ 108,873
Infrastructure and improvements	\$18,149,946
Total Capital Assets	\$21,948,265
Accumulated Depreciation	\$ 9,326,983
Net Capital Assets	\$12,717,246

Additional information regarding capital assets is located in the notes to the financial statements.

CLOSING

This financial report is intended to provide our citizens, taxpayers and the general public with a general overview of the road commission's finance and how they are expended.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2003

ASSETS

Imprest cash	\$ 250
Cash demand and time deposits	303,227
Accounts receivable	
Due from other governmental units	621,037
Inventories	310,714
Capital Assets (Net of Accumulated Depreciation)	<u>12,717,246</u>
Total Assets	<u>13,952,474</u>

LIABILITIES

Current Liabilities	
Accounts payable	256,890
Accrued liabilities	23,608
Lease Purchase	93,056
Non Current Liabilities	
Lease Purchase	113,698
Vested Employee Benefits Payable	<u>92,141</u>
Total Liabilities	<u>579,393</u>

NET ASSETS

Investment in Capital Fixed Assets	
Net of Related Debt	12,510,492
Restricted for County Roads	<u>862,589</u>
Total Net Assets	<u>\$ 13,373,081</u>

See accompanying notes to the basic financial statements.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

Program Expenses	
Primary Road Maintenance	\$ 1,194,810
Local Road Maintenance	1,513,985
Net Equipment Expense	(142,077)
Net Administrative Expense	293,659
Infrastructure Depreciation	986,313
Compensated Absences	7,166
Interest Expense	<u>8,526</u>
Total Program Expenses	<u>3,862,382</u>
Program Revenue	
Federal Grants	655,448
State Grants	3,444,994
Contributions from Local Units	413,997
Charges for Services	32,213
Investment Earnings	<u>2,523</u>
Total Program Revenue	<u>4,549,175</u>
Net Program Revenue	<u>686,793</u>
General Revenue	
Gain (Loss) on Equipment Disposal	<u>92,172</u>
Total General Revenues	<u>92,172</u>
Change in Net Assets	778,965
Net Assets	
Beginning of Year	<u>12,594,116</u>
End of Year	<u>\$ 13,373,081</u>

See accompanying notes to the basic financial statements.

KALKASKA COUNTY ROAD COMMISSION
BALANCE SHEET
DECEMBER 31, 2003

	Governmental <u>Fund Type</u> General <u>Operating</u>
ASSETS	
Imprest cash	\$ 250
Cash demand and time deposits	303,227
Accounts receivable:	
Due from State	485,324
Due on road agreements	135,713
Inventories	<u>310,714</u>
Total Assets	<u>\$ 1,235,228</u>
LIABILITIES AND FUND EQUITY	
Accounts payable	\$ 256,890
Accrued liabilities	<u>23,608</u>
Total Liabilities	<u>280,498</u>
Fund Equity:	
Fund Balance:	
Undesignated	<u>954,730</u>
Total Fund Equity	<u>954,730</u>
Total Liabilities and Fund Equity	<u>\$ 1,235,228</u>

See accompanying notes to the basic financial statements.

KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2003

Total governmental fund balance \$ 954,730

Amounts reported for governmental activities in
the statement of new assets are different because:

Capital assets used in governmental activities
are not financial resources and therefore are
not reported in the funds. 12,717,246

Other long-term assets are not available to pay
for current period expenditures and therefore are
not reported in the funds. (298,895)

Net assets of governmental activities \$ 13,373,081

See accompanying notes to the basic financial statements.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
DECEMBER 31, 2003

	<u>Operating Fund</u>
Revenues	
Federal Grants	\$ 655,448
State Grants	3,444,994
Contributions From Local Units	413,997
Changes for Services	32,213
Interest and Rents	2,523
Other Revenue	<u>92,172</u>
Total Revenues	<u>4,641,347</u>
Other Financing Sources:	
Lease Purchase Proceeds	<u>140,813</u>
Total Other Financing Sources	<u>140,813</u>
Total Revenues and Other Financing Sources	<u>4,782,160</u>
Expenditures	
Public Works	4,655,217
Net Capital Outlay	(109,950)
Debt Service	<u>95,708</u>
Total Expenditures	<u>4,640,975</u>
Excess of Revenues and Other Financing Sources (Under) Expenditures	141,185
Fund Balance-January 1, 2003	<u>813,545</u>
Fund Balance-December 31, 2003	<u><u>\$ 954,730</u></u>

See accompanying notes to the basic financial statements.

KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

Net Change in fund balance-total governmental funds \$ 141,185

Amounts reported for governmental activities
in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities. 698,576

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the statement of net assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. (53,631)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense). (7,165)

Change in net assets of governmental activities. \$ 778,965

See accompanying notes to the basic financial statements.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Kalkaska County Road Commission conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

DESCRIPTION OF ROAD COMMISSION OPERATIONS - The Kalkaska County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Kalkaska, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance and contributions from other local units of government for work performed by the Road Commission work force.

The Road Commission which was established pursuant to statute in 1915 operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. A different Road Commissioner is elected biannually to serve a six year term.

FINANCIAL REPORTING ENTITY - The Road Commission is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this State requirement.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Kalkaska County Road Commission, a discretely presented component unit of Kalkaska County, and include the Road Commission Operating Fund, General Fixed Asset Account Group, and General Long-Term Debt Account Group.

BASIS OF PRESENTATION-GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all the Kalkaska County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION-FUND FINANCIAL STATEMENTS

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING-GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year of which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: charges to customer or applicants for goods or services or privileges provided; Michigan transportation funds; and State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING-FUND FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less within acquired. Investments are stated at fair value.

INVENTORY - Inventories consisting of equipment parts and supplies of \$163,506 and road materials of \$147,208, are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Kalkaska County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Kalkaska County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets. The Road Commission has retroactively capitalized the major infrastructure assets as of December 31, 2003, as permitted by GASB 34.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCRUED VACATION AND SICK - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts.

Employees are compensated 100% of their vested vacation leave and 50% to 100% (depending in employees classification) of their vested sick leave upon termination for any reason.

EQUIPMENT RENTALS - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

DEPRECIATION - Depreciation is computed on the sum-of-the-years-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure-Roads	8 to 30 years
Infrastructure-Bridges	12 to 50 years

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in operating fund statement of net assets.

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003
(CONTINUED)

NOTE B - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items are presented below:

<u>Balance Sheet Accounts</u>	<u>Amount</u>	<u>Cash Items</u>	<u>Amount</u>
Cash on hand	\$ 250	Cash on hand	\$ 250
Cash demand and time deposits	<u>303,227</u>	Savings	<u>303,227</u>
	<u>\$ 303,477</u>		<u>\$ 303,477</u>

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for Kalkaska County Road Commission's cash deposits are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 100,000	\$ 183,586
Uninsured and Uncollateralized	<u>203,227</u>	<u>26,675</u>
Total Deposits	<u>\$ 303,227</u>	<u>\$ 210,261</u>

DEPOSITS - At year-end the carrying amount of the County Road Commissions deposits were \$303,227 and the bank balance was \$210,261. According to the Federal Deposit Insurance Corporation, approximately 87% of the total bank balance was covered by federal depository insurance. Michigan statutes do not allow collateralization of governmental deposits.

INVESTMENTS - Act 217, PA 1982, authorizes the County Treasurer to deposit and invest for the Road Commission in the following:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State under section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any one time
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003
(CONTINUED)

NOTE C - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance</u> <u>1/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/03</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 95,964	\$ -0-	\$ -0-	\$ 95,964
Subtotal	<u>95,964</u>	<u>-0-</u>	<u>-0-</u>	<u>95,964</u>
Capital Assets Being Depreciated:				
Buildings	533,063	18,038	-0-	551,101
Road Equipment	3,119,897	169,453	151,005	3,138,345
Shop Equipment	34,523	-0-	-0-	34,523
Office Equipment	67,751	6,599	-0-	74,350
Infrastructure-Bridges	1,099,233	23,305	-0-	1,122,538
Infrastructure-Roads	<u>15,255,873</u>	<u>1,771,535</u>	<u>-0-</u>	<u>17,027,408</u>
Total	<u>20,110,340</u>	<u>1,988,930</u>	<u>151,005</u>	<u>21,948,265</u>
Less Accumulated Depreciation:				
Buildings	427,751	20,345	-0-	448,096
Road Equipment	2,300,425	277,315	150,783	2,426,957
Shop Equipment	32,703	-0-	-0-	32,703
Office Equipment	49,880	6,159	-0-	56,039
Infrastructure-Bridges	226,801	30,087	-0-	256,888
Infrastructure-Roads	<u>5,150,074</u>	<u>956,226</u>	<u>-0-</u>	<u>6,106,300</u>
Total	<u>8,187,634</u>	<u>1,290,132</u>	<u>150,783</u>	<u>9,326,983</u>
Net Capital Assets Being Depreciated	<u>11,922,706</u>	<u>698,798</u>	<u>222</u>	<u>12,621,282</u>
Total Net Capital Assets	<u>\$12,018,670</u>	<u>\$ 698,798</u>	<u>\$ 222</u>	<u>\$12,717,246</u>

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003
(CONTINUED)

NOTE D - PENSION PLAN

Plan Description - The Kalkaska County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401(a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917.

All full time Road Commission employees are eligible to participate in the system. Benefits vest after ten year of service. Employees who retire at or after age 60 with 10 years credited service are entitle to an annual retirement benefit, payable monthly for life, in an amount equal to 2.5 percent of the member's five-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003
(CONTINUED)

NOTE D - PENSION PLAN (CONTINUED)

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 5,766,174
Terminated employees not yet receiving benefits	13,384
Current Employees:	
Accumulated employee contributions including allocated investment income	-0-
Employer financed	<u>1,500,131</u>
Total actuarial accrued liability	7,279,689
Net assets available for benefits, at actuarial value (Market value is \$4,129,727)	<u>4,522,716</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 2,756,973</u>

GASB 27 INFORMATION (as of 12/31/03)

Fiscal year beginning	January 1, 2005
Annual required contribution (ARC)	\$ 264,528
Amortization factor used	0.053632

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 182,768	100%	\$ -0-
2002	212,415	100%	-0-
2003	225,478	100%	-0-

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003
(CONTINUED)

NOTE D - PENSION PLAN (CONTINUED)

Aggregate Accrued Liabilities - Comparative Schedule

Actuarial Valuation Date December 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % Of Covered Payroll
2001	\$ 4,522,626	\$ 6,393,962	\$ 1,871,336	71%	\$ 1,089,673	172%
2002	4,458,342	7,052,864	2,594,522	63%	1,107,389	234%
2003	4,522,716	7,279,689	2,756,973	62%	1,028,950	268%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation.

NOTE E - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

CHANGES IN LONG TERM DEBT

<u>Description</u>	<u>January 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2003</u>
Lease Purchase	\$ 153,123	\$ 140,813	\$ 87,182	\$ 206,754
Compensated Absences	84,976	(1) 7,165	-0-	92,141
Total	<u>\$ 238,099</u>	<u>\$ 147,978</u>	<u>\$ 87,182</u>	<u>\$ 298,895</u>

(1) The change in compensated absences is shown as a net addition.

On September 13, 2001, the Board of County Road Commissioners entered into two lease purchase agreements with Scientific Leasing for the purchase of road equipment. The lease agreements consist of 36 monthly payments of \$1,000 and \$1,225, respectively.

On October 15, 2002, the Board of County Road Commissioners entered into a lease purchase agreement with Continental Distributing Corporation for the purchase of two Komatsu Motor Graders. The financial amount of \$114,380 consists of nine quarterly payments starting on January 15, 2003, of \$13,478 at a rate of 4.75%.

On July 20, 2003 the Board of Commissioners entered into a lease purchase agreement with John Deere for the purchase of a four wheel drive loader valued at \$140,813. The lease agreement consists of 20 quarterly payments of \$7,711 starting July 20, 2003 at a rate of 3.9%.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003
(CONTINUED)

NOTE E - LONG TERM DEBT (CONTINUED)

Annual Debt Service Requirements:

<u>Year</u>	<u>Amount</u>
2004	\$ 99,792
2005	44,321
2006	30,843
2007	30,843
2008	<u>15,373</u>
Total Payments	221,172
Less Interest & Fees	<u>(14,418)</u>
Net Balance Due	<u>\$ 206,754</u>

NOTE F - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2003 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Heavy Maintenance	\$ 600,000	\$ 1,404,388	\$ (804,388)
Local Road:			
Heavy Maintenance	\$ 300,000	\$ 390,452	\$ (90,452)
Long-Term Debt Payments	\$ 80,000	\$ 87,182	\$ (7,182)
Interest Expense	\$ -0-	\$ 8,526	\$ (8,526)

The Road Commission does not use encumbrances for budgetary purposes. During the year ended December 31, 2003, the Road Commissioners made one amendment to the General Operating Fund Budget.

NOTE G - RISK MANAGEMENT

Kalkaska County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

KALKASKA COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003
(CONTINUED)

NOTE G - RISK MANAGEMENT - (CONTINUED)

The Kalkaska Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

During 2003 and the previous two years, there were no settlements which exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

NOTE H - FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation that Road Commissioners report total federal financial assistance for Highway Research, Planning and construction pertaining to their County. However, only the federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

The federal revenue of \$655,448 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors or under forced contracts between the Road Commission and the Michigan Department of Transportation.

NOTE I - POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note D the Road Commission provides post retirement health care benefits to union employees who retire from the Road Commission on or after obtaining age 55 with 20 or more years of service and all other employees on or after attaining age 62 with 20 or more years of service; or, those who retire under a valid disability claim regardless of age. The health care benefits consist of the Road Commission paying the monthly health insurance for a period of three years after retirement for union employees and dependents and until death for non-union employees. The costs of retirees' health care benefits are recognized as expenditures as claims are paid. For 2003, those costs totaled \$67,284.

NOTE J - COMPENSATED ABSENCES

County Road employees, after six months of service, are credited with 8 hours of sick leave for each month of service, not to exceed a total accumulation of 640 hours. Upon termination, the accumulated sick leave is paid in full. The accumulated sick leave as of December 31, 2003, totaled \$92,141.

REQUIRED SUPPLEMENTAL INFORMATION

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED DECEMBER 31, 2003

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Michigan Transportation Funds:				
Primary road	\$	\$	\$ 1,782,283	\$
Local road			1,187,360	
Snow removal			224,824	
Engineering			4,090	
Subtotal	(1) <u>3,120,000</u>	<u>3,236,000</u>	<u>3,198,557</u>	<u>(37,443)</u>
Federal Aid:				
Federal aid secondary	-0-	-0-	327,724	327,724
Category-D	-0-	-0-	327,724	327,724
State Forest Road Funds	-0-	-0-	82,663	82,663
Rural Primary Funds	-0-	-0-	163,774	163,774
County Raised Funds:				
Township contributions and other contributions	220,000	350,000	413,997	63,997
Other Revenue:				
Gain (Loss) on Sale of Equipment	5,500	100,000	92,172	(7,828)
Interest, Salvage Sales, Permits and Refunds	<u>35,300</u>	<u>34,000</u>	<u>34,736</u>	<u>736</u>
Total Revenue	<u>3,380,800</u>	<u>3,720,000</u>	<u>4,641,347</u>	<u>921,347</u>
Other Financing Sources:				
Lease Purchase Proceeds	<u>-0-</u>	<u>-0-</u>	<u>140,813</u>	<u>140,813</u>
Total Other Financing Sources	<u>-0-</u>	<u>-0-</u>	<u>140,813</u>	<u>140,813</u>
Total Revenue and Other Financing Sources	<u>\$ 3,380,800</u>	<u>\$ 3,720,000</u>	<u>\$ 4,782,160</u>	<u>\$ 1,062,160</u>

(1) Budgeted in Total

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES -
BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS DECEMBER 31, 2003

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 200,000	\$ 600,000	\$ 1,404,388	\$ (804,388)
Maintenance	1,200,000	1,200,000	1,194,810	5,190
Local Road:				
Heavy maintenance	150,000	300,000	390,452	(90,452)
Maintenance	<u>1,427,600</u>	<u>1,550,000</u>	<u>1,513,985</u>	<u>36,015</u>
Subtotal	<u>2,977,600</u>	<u>3,650,000</u>	<u>4,503,635</u>	<u>(853,635)</u>
Equipment Expense - Net:				
Direct			790,265	
Indirect			420,860	
Operating			156,222	
Less:				
Equipment Rental			(1,509,424)	
Subtotal	(1) <u>(50,000)</u>	(1) <u>(100,000)</u>	<u>(142,077)</u>	<u>42,077</u>
Administrative Expense - Net:				
Administrative expense			293,792	
Less:				
Purchase discounts and				
Handling Charges			(133)	
Subtotal	(1) <u>275,000</u>	(1) <u>300,000</u>	<u>293,659</u>	<u>6,341</u>
Capital Outlay - Net:				
Capital Outlay			194,090	
Less:				
Equipment retirements			(221)	
Depreciation			(303,819)	
Subtotal	(1) <u>100,000</u>	(1) <u>(100,000)</u>	<u>(109,950)</u>	<u>9,950</u>
Long-Term Debt Payments	<u>78,200</u>	<u>80,000</u>	<u>87,182</u>	<u>(7,182)</u>
Interest Expense	<u>-0-</u>	<u>-0-</u>	<u>8,526</u>	<u>(8,526)</u>
Total Expenditures	<u>\$ 3,380,800</u>	<u>\$ 3,830,000</u>	<u>\$ 4,640,975</u>	<u>\$ (810,975)</u>

(1) Budgeted in total

SUPPLEMENTAL SCHEDULES

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES OF FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Total Revenues and other Financing Sources	\$ 2,898,404	\$ 1,616,901	\$ 266,855	\$ 4,782,160
Total Expenditures	<u>2,711,409</u>	<u>1,954,253</u>	<u>(24,687)</u>	<u>4,640,975</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures before Optional Transfers	186,995	(337,352)	291,542	141,185
Optional Transfers	<u>(337,352)</u>	<u>337,352</u>	<u>-0-</u>	<u>-0-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures After Transfers	(150,357)	-0-	291,542	141,185
Fund Balance - January 1	<u>226,732</u>	<u>45,849</u>	<u>540,964</u>	<u>813,545</u>
Fund Balance - December 31	<u>\$ 76,375</u>	<u>\$ 45,849</u>	<u>\$ 832,506</u>	<u>\$ 954,730</u>

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Motor Vehicle Highway Funds:				
Primary road	\$ 1,782,283	\$ -0-	\$ -0-	\$ 1,782,283
Local road	-0-	1,187,360	-0-	1,187,360
Snow removal	134,932	89,892	-0-	224,824
Engineering	<u>2,455</u>	<u>1,635</u>	<u>-0-</u>	<u>4,090</u>
Subtotal	<u>1,919,670</u>	<u>1,278,887</u>	<u>-0-</u>	<u>3,198,557</u>
Federal Aid:				
Federal Aid Secondary	327,724	-0-	-0-	327,724
Category - D	<u>327,724</u>	<u>-0-</u>	<u>-0-</u>	<u>327,724</u>
State Forest Road Funds	82,663	-0-	-0-	82,663
Rural Primary Funds	163,774	-0-	-0-	163,774
County Raised Funds:				
Township contributions and other contributions	76,125	337,872	-0-	413,997
Other Revenue:				
Gain (Loss) on Sale of Equipment	21	-0-	92,151	92,172
Interest, Salvage Sales, Permits and Refunds	<u>703</u>	<u>142</u>	<u>33,891</u>	<u>34,736</u>
Total Revenue	<u>2,898,404</u>	<u>1,616,901</u>	<u>126,042</u>	<u>4,641,347</u>
Other Financing Sources:				
Lease Purchase Proceeds	<u>-0-</u>	<u>-0-</u>	<u>140,813</u>	<u>140,813</u>
Total Other Financing Sources	<u>-0-</u>	<u>-0-</u>	<u>140,813</u>	<u>140,813</u>
Total Revenue and Other Financing Sources	<u>\$ 2,898,404</u>	<u>\$ 1,616,901</u>	<u>\$ 266,855</u>	<u>\$ 4,782,160</u>

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Primary Road:				
Heavy maintenance	\$ 1,404,388	\$ -0-	\$ -0-	\$ 1,404,388
Maintenance	1,194,810	-0-	-0-	1,194,810
Local Road:				
Heavy maintenance	-0-	390,452	-0-	390,452
Maintenance	-0-	1,513,985	-0-	1,513,985
Subtotal	2,599,198	1,904,437	-0-	4,503,635
Equipment Expense - Net:				
Direct	318,160	413,624	58,481	790,265
Indirect	169,438	220,278	31,144	420,860
Operating	62,895	81,766	11,561	156,222
Less:				
Equipment Rental	(607,693)	(790,031)	(111,700)	(1,509,424)
Subtotal	(57,200)	(74,363)	(10,514)	(142,077)
Administrative Expense - Net:				
Administrative expense	169,557	124,235	-0-	293,792
Less:				
Purchase discounts and				
Handling charges	(77)	(56)	-0-	(133)
Subtotal	169,480	124,179	-0-	293,659
Capital Outlay - Net:				
Capital Outlay	-0-	-0-	194,090	194,090
Less:				
Equipment retirements	-0-	-0-	(221)	(221)
Depreciation	(69)	-0-	(303,750)	(303,819)
Subtotal	(69)	-0-	(109,881)	(109,950)
Long-Term Debt Payments	-0-	-0-	87,182	87,182
Interest Expense	-0-	-0-	8,526	8,526
Total Expenditures	\$ 2,711,409	\$ 1,954,253	\$ (24,687)	\$ 4,640,975



Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

August 11, 2004

Board of County Road Commissioners
Kalkaska County Road Commission
Kalkaska, MI 49646

We have audited the basic financial statements of the Kalkaska County Road Commission as of and for the year ended December 31, 2003, and have issued our report thereon dated August 11, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Kalkaska County Road Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Kalkaska County Road Commission in a separate letter dated August 11, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, We considered the Kalkaska County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Kalkaska County Road Commission in a separate letter dated August 11, 2004

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and the Michigan Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.


ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**KALKASKA COUNTY ROAD COMMISSION
REPORT TO MANAGEMENT
DECEMBER 31, 2003**



Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

245 Lake Street • P.O. Box 746 • Roscommon, MI 48653
(989) 275-8831

August 11, 2004

Board of County Road Commissioners
Kalkaska County Road Commission
Kalkaska, MI 49646

In planning and performing our audit of the financial statements of the Kalkaska County Road Commission as of and for the year ended December 31, 2003, we considered the Road Commissions accounting, operational, and internal control procedures to determine the nature and extent of our audit testing for the purpose of expressing an opinion on the financial statements of the Road Commission and not to provide assurance on the procedures themselves.

We did however, during the course of our audit, become aware of certain matters that are opportunities for enhancing those procedures or controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 11, 2004 on the financial statements of the Kalkaska County Road Commission.

We have already discussed these comments and suggestions with the Kalkaska County Road Commission personnel, and we will be pleased to discuss them in further detail at your convenience, and/or to perform any additional studies of these matters, should you so desire.



ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Cash and Investments

Bank reconciliations were not performed timely after each month end. This allowed for several accounting errors to go undetected for several months. We recommend that the bank reconciliations and reconciliation with the County Treasurer be performed within two weeks of each month end.

Material Bid

During 2003, road sand was purchased in excess of \$10,000 without sealed bids. According to the "Uniform Accounting Procedures Manual for County Road Commissions" and Act 283 of 1909, the road commission shall obtain sealed bids for purchases greater than \$10,000 of machines, tools, appliances and materials. It is understood that quotes were obtained from contractors for the sand. However, we recommend that sealed bids be used for materials of this nature in the future.

Pension Plan

The Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). Each year an actuarial report is prepared to determine the future funding requirements and the unfunded actuarial liability. As of December 31, 2003, the plan was under funded by \$2,756,973. This equates to 268% of the payroll covered by the pension in 2003. We recommend that the board review the full actuarial report separately issued by MERS as part of their budgeting process and future planning. Before any additional plan changes are made, we recommend that the board be fully cognizant of the impact it will have on the future funding requirements of the pension plan.